

# MEMORANDUM

## Sherwood Old Town Strategic Plan

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Subject: Considerations for a Local Improvement District to finance key infrastructure improvements to stimulate Old Town investment.

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## Funding Old Town Infrastructure Improvements

The Strategic Action Plan is founded on the principle that targeted City investments in key infrastructure can catalyze both immediate and sustained private investment along the **Pine Street** and **Columbia Street** corridors. Vacant and underutilized sites along these vital streets present significant opportunities for new businesses that will enhance Old Town's mix of retail, dining, commercial, entertainment, arts, and cultural offerings—elements that attract people to the area. Additionally, introducing diverse housing options supports a more active Old Town environment and caters to the local demographic, including an aging population and empty nesters.

These infrastructure improvements aim to complete the "curbless" street design of Pine Street, reinforcing its role as a defining street type and creating a clearly defined beginning, middle, and end to this important street within the Old Town. Furthermore, extending Columbia Street to the Oregon Street intersection will establish a new "front door" to Old Town, enhancing visibility and access while unlocking development potential on currently isolated sites.

With the sunsetting of the Old Town Urban Renewal District, funding for infrastructure is limited. Existing capital funds are allocated to other essential City projects. Consequently, a dedicated funding source is necessary to support the planning, design, and construction of these critical infrastructure projects.

The following memorandum outlines a recommendation for creating a Local Improvement District (LID) in Old Town, detailing the methods and steps required to establish and implement the district.

To support the funding of critical infrastructure improvements along Pine Street and Columbia Street in Sherwood's Old Town, establishing a Local Improvement District coupled with the State of Oregon Vertical Housing designation can be considered.

To pursue financing for infrastructure in Old Town Sherwood through a **Local Improvement District (LID)** and the **State of Oregon Vertical Housing Development Zone (VHDZ)** program, the City must undertake distinct but potentially complementary processes. The following is an overview of the steps involved in setting up each:

# How the LID and VHDZ Can Work Together

- The LID provides a financing mechanism to build public infrastructure.
- The VHDZ provides a tax incentive for developers to invest in vertical, mixed-use housing, improving project feasibility.
- Used together, these tools can help finance public improvements and attract private development to Old Town.

## Steps to Establish an LID zone and VHDZ designation

### 1. Local Improvement District (LID)

An LID is a financing tool that allows a municipality to assess property owners for the cost of infrastructure improvements that directly benefit their properties.

#### Steps to Establish an LID in Oregon (including Sherwood):

##### 1.1 Feasibility and Outreach

- Identify the project scope, costs, and boundaries.
- Determine the benefit to individual properties.
- Conduct preliminary outreach with affected property owners to assess interest and willingness to participate.

##### 1.2 Council Resolution of Intent

- Prepare a Resolution of Intent to form the LID and hold a public hearing.
- Include estimated costs, boundaries, proposed assessments, and project scope.
- Notify all affected property owners.

##### 1.3 Public Hearing and Protest Period

- Hold a public hearing before the City Council.
- Property owners may object; a project can be stopped if a majority of affected owners representing more than 50% of the assessed value object.

##### 1.4 Council Formation of LID

- If the protest threshold is not met, the Council can adopt a resolution to formally create the LID.
- Include final project scope, cost sharing, financing terms, and assessment methodology.

##### 1.5 Project Delivery

- Proceed with design, engineering, and construction.
- Finance the project via City-issued LID bonds or interim financing.

## 1.6 Final Assessment and Repayment

- Upon project completion, finalize costs and assess properties.
- Property owners may pay assessments upfront or over time (e.g., 10–20 years) with interest.

### References:

- Oregon Revised Statutes Chapter 223 – Local Improvements and Assessments
- Example: Portland's LID process overview

## 2. Vertical Housing Development Zone (VHDZ) Program

The State of Oregon VHDZ program provides property tax exemptions for qualifying mixed-use developments in designated areas to encourage vertical (multi-story) housing in urban areas.

### Steps to Designate a VHDZ:

#### 2.1 Identify Eligible Area

- VHDZs can be designated in areas zoned for mixed-use or residential development within urban growth boundaries.
- Old Town Sherwood likely qualifies if zoning supports mixed-use.

#### 2.2 Adopt a Local Ordinance

- The City must adopt a local ordinance designating the VHDZ area.
- Include a legal description and map of the zone.
- Hold public hearings and gain Council approval.

#### 2.3 Notify the Oregon Housing and Community Services (OHCS) Department

- Submit the VHDZ designation with a certified copy of the ordinance, boundary map, and legal description to OHCS.

#### 2.4 Property Owner Application Process

- Developers must apply to OHCS to receive the exemption after building in a designated VHDZ.
- The exemption applies to the improvement (building) value, not the land, and can last up to 10 years.
- Tax exemption scales with the number of residential stories: 1 story = 20%, 2 stories = 40%, up to 80% for 4+ stories. Up to 100% is possible with affordable housing.

### References:

- Oregon Housing and Community Services VHDZ Program Guide
- Oregon Revised Statutes § 307.841–307.867

# How LID Boundaries Are Identified

## Primary Considerations:

1. **Extent of the Infrastructure Project**
  - The boundary generally includes parcels adjacent to or near the improvement (e.g., street reconstruction, new sidewalk, lighting).
  - It often mirrors the limits of the physical improvement, but can extend beyond it if benefits (e.g., improved access, drainage, aesthetics) reach further.
2. **Special vs. General Benefit**
  - The key legal and financial principle is special benefit—only properties receiving a special (i.e., above general public) benefit can be assessed.
  - "General benefits" to the community at large (e.g., regional traffic flow) cannot be included in the assessment calculation.
3. **Measurable Impact**
  - The City may evaluate changes in access, safety, aesthetics, utility connections, or expected property value increases.
  - Cities sometimes use property appraisal data, benefit zones, or engineering judgment to define this.
4. **Contiguity and Fairness**
  - The boundary must be contiguous and justifiable in terms of benefit distribution.
  - Avoid including properties that do not receive a proportional benefit, as they may have legal grounds to protest or appeal.

## Typical Methods for Defining Boundaries

1. **Frontage-based:** All parcels that front the improvement.
2. **Area-based or Proximity-based:** Includes parcels within a defined radius (e.g., 200 feet) of the improvement.
3. **Access improvement-based:** Parcels gaining new or safer access from the project.
4. **Hybrid models:** Mix of frontage and proximity.

## City-Owned Properties Included in an LID

- The City, like any other property owner, **can be assessed** for its share of costs if its property receives a **special benefit** from the project.
- City participation must be **accounted for in the LID financing plan**—either through General Fund, Capital Improvement funds, or another internal source.

- If the City chooses **not to assess itself**, the cost share may shift to private property owners, which could raise fairness concerns.

## ***Practical and Legal Considerations***

### **Assessment and Benefit**

- The City must objectively determine whether its parcels receive a **special (not general) benefit**—e.g., does the infrastructure:
  - Improve access to a city facility?
  - Increase developability or value?
  - Enhance stormwater or utility service to that parcel?

If yes, the parcel should be assessed like any other.

### ***Impact on Protest Thresholds***

- Oregon law generally allows LID formation to be blocked if a majority of owners representing more than 50% of the assessed value object.
- If the City is the majority landholder in the LID boundary:
  - Its decision to support or oppose the LID may effectively determine the outcome.
  - Politically, this can look like the City is “voting to tax itself and others,” so transparency is essential.

## ***Policy Options for City-Owned Property in the LID***

- Full Participation**
  - City includes its properties and pays its assessed share.
  - Demonstrates commitment and fairness to private owners.
  - Helps build political and community support.
- Partial or Waived Participation**
  - City may choose to subsidize its share from other funds (e.g., ARPA, General Fund).
  - If the City waives its share, the cost must be redistributed—which may increase opposition.
- Contribution Outside the LID**
  - City could contribute a flat amount or cover specific public elements (e.g., lighting or landscaping) outside the LID assessments.

## ***Potential Steps for Sherwood***

- Identify all City-owned parcels in the potential LID boundary.**
- Assess whether they receive special benefit.**

- c. Decide (and document) whether to assess or subsidize those parcels.
- d. Be transparent with stakeholders—city participation often improves perception of fairness and builds confidence in the process.

## Recommendations for an Old Town Local Improvement District

There is precedent and a solid policy rationale for including the entire Old Town district (or a defined core area of it) within the LID boundary for infrastructure improvements to **Columbia Street and Pine Street**, in particular because these streets:

- Serve as **primary access corridors** to the district, and
- Provide **district-wide benefits** that enhance commercial viability, visibility, circulation, and investment readiness.

This approach has been used in multiple Oregon cities and elsewhere when:

- A small number of key infrastructure investments catalyze benefits across a larger area.
- Public funding is unavailable or insufficient.
- A district-wide benefit is clear even if the improvement is localized.

### *Precedent and Policy Justification for District-Wide LID Boundaries*

#### 1. Primary Access = Shared Benefit

- Streets like Pine and Columbia are the **main public access and circulation spine** for all Old Town businesses, regardless of whether a business fronts the improvement.
- Improving these corridors benefits *all* businesses via:
  - Better traffic flow
  - Enhanced pedestrian access and safety
  - Public realm cohesion
  - Increased visibility and attractiveness of Old Town as a whole

#### 2. District-Wide Identity and Economic Impact

- These projects may not just serve adjacent parcels—they are placemaking and branding projects that make the entire district more marketable and functional.
- As a result, even side street or alley-fronting businesses benefit from increased foot traffic and reinvestment interest.

#### 3. Precedent in Other Oregon Cities

- McMinnville, Astoria, Bend, and Springfield have used LIDs to fund "gateway" or "main street" infrastructure projects with district-wide boundaries.
- Example: McMinnville's Alpine Avenue project used an LID to improve a few blocks, but assessed a broader area based on district benefit.

- Portland has also applied this principle for Green Streets and Main Street reconstructions, assessing broader areas due to access and stormwater benefit.

#### **4. No Urban Renewal = Need for Broader Cost Sharing**

- The inability to use Urban Renewal today creates a gap that broader LID boundaries can fill.
- Including the whole district ensures future beneficiaries contribute to infrastructure that supports long-term value and business attraction.

#### ***Considerations for a District-Wide LID***

- **Special Benefit must be demonstrated**—this can be documented with:
  - Access and circulation maps
  - Market/economic analyses showing increased value or activity
  - Pedestrian counts or delivery access analysis
- **Tiered Assessments** are essential for fairness:
  - Directly abutting properties = higher share
  - Indirect beneficiaries (within 1–2 blocks) = reduced share
  - Use property class, square footage, or frontage to differentiate tiers
- **Political Strategy:**
  - Broad boundaries can reduce individual assessments, but increase number of participants.
  - Early outreach and transparency are critical to avoid opposition.

#### ***Recommendation for Sherwood***

Consider including the **entire core of Old Town** in a unified LID for the Columbia and Pine Street improvements, based on:

1. **Primary access role** of both streets
2. **District-wide benefit** to business visibility, foot traffic, and reinvestment
3. **Equity in cost sharing** given historic Urban Renewal funding
4. **Strategic consolidation** of small improvements into one cohesive LID effort

# Benefits of Local Improvement District and Tiered Assessment

The following is a rationale for tiered assessment and benefits of LID implementation.

## *Rationale for a Tiered Assessment Approach:*

1. **Direct Benefit Zone (Tier 1):**
  - o Properties directly adjacent to the planned improvements on Pine Street and Columbia Street.
  - o These parcels will experience immediate enhancements in accessibility, aesthetics, and infrastructure, directly increasing their value and attractiveness for development.
2. **Secondary Benefit Zone (Tier 2):**
  - o Properties within a defined proximity to the primary improvement areas.
  - o These areas will benefit from improved connectivity and increased foot traffic, indirectly boosting their potential for investment and development.
3. **General Benefit Zone (Tier 3):**
  - o The broader Old Town district that, while not in immediate proximity, will experience overall economic and social uplift from the revitalization efforts.

## *Benefits of the LID Implementation:*

1. **Stimulating Private Investment:**
  - o Enhanced infrastructure will make Old Town more attractive to investors and developers, leading to the establishment of new businesses and housing options.
2. **Optimizing Underutilized Properties:**
  - o Vacant and underused parcels, especially those owned by the city, can be transformed into productive assets, contributing to the local economy.
3. **Sustainable Funding Mechanism:**
  - o With the sunsetting of the Old Town Urban Renewal District, the LID provides an alternative funding source dedicated to the area's development needs.
4. **Equitable Cost Distribution:**
  - o A tiered assessment ensures that property owners contribute in proportion to the benefits they receive, promoting fairness and community support.

# Proposed Old Town Sherwood Local Improvement District (LID) Boundary and Tiered Assessment Strategy

The following outlines a proposed boundary and benefit-tier framework for establishing a Local Improvement District (LID) in Old Town Sherwood. This framework aims to equitably distribute the costs of infrastructure improvements along NW Pine Street and the extension of SW Columbia Street among properties that directly or indirectly benefit from enhanced access, circulation, and streetscape enhancements.

## *Background*

The City of Sherwood is advancing a Strategic Action Plan for Old Town that prioritizes two key infrastructure projects:

1. **NW Pine Street Reconstruction**

Full right-of-way reconstruction (roadway, sidewalks, stormwater, lighting, utility undergrounding) from SW 1st Street to SW 3rd Street, completing the curbless street design started under the now-retired Urban Renewal District.

2. **SW Columbia Street Extension**

New roadway segment from SW Highland Drive to SW Oregon Street, improving access to Old Town from the west and southwest and establishing a secondary gateway.

These corridors provide **primary vehicular and pedestrian access** to Old Town's businesses and are essential for the district's functionality, identity, and reinvestment potential.

## *Proposed LID Boundary*

The proposed LID would include **all properties within the historic Old Town Overlay district**, defined by the following limits:

- North: NW 3rd Street
- South: SW Oregon Street
- East: SW 1st Street
- West: SW Highland Drive

This boundary encompasses the Pine Street corridor, the proposed Columbia Street extension, and the blocks of commercial and mixed-use properties that rely on these streets for access and economic vitality.

## *Tiered Benefit Structure*

A three-tier structure is proposed based on proximity to the improvements and the degree of special benefit received:

### **Tier 1 – Direct Frontage**

- Properties directly abutting the Pine Street reconstruction (1st to 3rd) or the new Columbia Street extension.

- Receive full benefit from new access, aesthetic, and utility improvements.
- Assessment Level: 100%

#### **Tier 2 – Adjacent Block Access**

- Properties within 1 block of Pine or Columbia that gain indirect access, parking, loading, and connectivity benefits.
- Assessment Level: 50–75%, based on detailed proximity and function (e.g., deliveries, foot traffic)

#### **Tier 3 – District-Wide Benefit**

- Properties within the Old Town core that rely on Pine or Columbia for customer or delivery access, circulation, and district visibility.
- Receive shared benefit from enhanced image, walkability, and investment climate.
- Assessment Level: 25–40%

#### **Next Steps**

- Confirm exact project scopes and cost estimates
- Conduct benefit analysis (using engineering and market analysis if needed)
- Refine parcel list and tier assignments
- Conduct outreach with Old Town property owners to preview boundary and benefit logic
- Prepare formal LID formation documents

## **LID and VHDZ Implementation Process and Timeline**

To support infrastructure improvements along Pine Street and Columbia Street in Sherwood's Old Town, the City can implement a Local Improvement District (LID) and designate a Vertical Housing Development Zone (VHDZ). This dual approach aims to stimulate private investment, revitalize underutilized properties, and enhance the area's economic vitality. Below is a proposed implementation process and timeline:

#### ***Phase 1: Initiation and Planning (Months 1–3)***

- **Preliminary Assessment:**
  - Identify the specific infrastructure needs along Pine and Columbia Streets.
  - Evaluate the potential benefits and impacts of the proposed improvements on surrounding properties.
- **Stakeholder Engagement:**
  - Conduct meetings with property owners, business leaders, and community members to gather input and build support.

- Discuss the concept of a tiered assessment approach based on proximity and benefit levels.
- **Feasibility Study:**
  - Analyze the financial viability of the LID and VHDZ, considering projected costs, funding sources, and anticipated revenues.
  - Assess the legal and regulatory requirements for establishing both districts.

## ***Phase 2: Design and Proposal Development (Months 4–6)***

- **Engineer's Report:**
  - Prepare a detailed report outlining the scope of work, cost estimates, and the proposed method for assessing properties within the LID.
  - Define the boundaries of the LID and categorize properties into tiers based on benefit levels.
- **VHDZ Proposal:**
  - Draft a proposal for the VHDZ, specifying the area to be designated and the criteria for project eligibility.
  - Include an analysis of potential displacement effects and strategies to mitigate them.
- **Public Notification:**
  - Inform affected property owners and local taxing districts about the proposed LID and VHDZ.
  - Provide details on the benefits, obligations, and opportunities associated with participation.

## ***Phase 3: Review and Approval (Months 7–9)***

- **Public Hearings:**
  - Hold formal hearings to present the LID and VHDZ proposals, allowing stakeholders to express support or concerns.
  - Address feedback and make necessary adjustments to the proposals.
- **Council Deliberation:**
  - City Council reviews the final proposals, considering public input and staff recommendations.
  - Vote on ordinances to establish the LID and designate the VHDZ.
- **Notification of Adoption:**
  - Officially notify all stakeholders of the adoption of the LID and VHDZ, including details on implementation timelines and next steps.

## ***Phase 4: Implementation (Months 10–18)***

- **Project Design and Bidding:**
  - Develop detailed engineering designs for the infrastructure improvements.
  - Solicit bids from contractors and select qualified firms to execute the projects.
- **Construction:**
  - Commence construction activities, ensuring minimal disruption to existing businesses and residents.
  - Monitor progress and maintain communication with stakeholders throughout the process.
- **VHDZ Activation:**
  - Begin accepting applications for development projects within the VHDZ.
  - Provide guidance to developers on the benefits and requirements of participating in the program.

## ***Phase 5: Evaluation and Adjustment (Months 19–24)***

- **Project Completion:**
  - Finalize construction and conduct inspections to ensure compliance with project specifications.
  - Address any deficiencies or outstanding issues.
- **Assessment and Feedback:**
  - Evaluate the effectiveness of the LID and VHDZ in achieving desired outcomes.
  - Gather feedback from stakeholders to inform future initiatives.
- **Ongoing Management:**
  - Establish mechanisms for the continued administration of the LID and VHDZ, including maintenance, monitoring, and potential expansion.

## **No Statutory Conflict Limiting use of a Local Improvement District in combination with a Vertical Housing Development Zone**

There is no inherent legal conflict under Oregon law between establishing a Local Improvement District (LID) and designating a Vertical Housing Development Zone (VHDZ) for the same area. The two tools serve different purposes and do not preclude each other, so long as each is created and administered according to its own statutory requirements.

## **How Each Tool Works**

### **1. Local Improvement District (LID)**

- A LID is a municipal financing mechanism used by a city to fund public infrastructure improvements by assessing property owners who benefit from improvements (e.g., street reconstruction, sidewalks, utilities).
- LIDs are governed by city ordinances and Oregon statutes related to local improvements.
- Assessments are based on benefit received; cities set the boundary and assessment method through ordinance after public hearings and required notices.

**Core point:** A LID does **not** exempt property taxes; it assesses property owners for infrastructure costs.

### **2. Vertical Housing Development Zone (VHDZ)**

- A VHDZ is a tax incentive tool under Oregon Revised Statutes (ORS) 307.841–307.867 that allows cities (or counties) to designate an area where qualifying mixed-use residential projects receive a **partial ad valorem property tax exemption** for up to 10 years.
- To designate a VHDZ:
  - The city must notify local taxing districts before adoption.
  - A local taxing district (e.g., fire district, school district) may **opt out** of participating in the VHDZ, meaning the exemption would not apply to that district's share of property taxes.
  - City council adopts a resolution or ordinance describing the zone and boundaries.
- VHDZ boundaries may **not overlap with another VHDZ**, and projects must be entirely within the designated zone.

**Core point:** A VHDZ grants a **partial tax exemption** to encourage vertical, mixed-use development — it does not itself fund infrastructure.

## **Do They Conflict?**

### **No Structural Conflict**

- **LIDs do not affect tax exemptions:** A LID is a funding mechanism (assessing property owners to pay for infrastructure).
- **VHDZ is a tax incentive:** It reduces property tax liability for qualifying development. These functions are separate and can operate simultaneously.

### **Taxing District Opt-Out**

- For VHDZ, other local taxing districts may elect not to participate — this has **no impact on a LID**.

- A taxing district opting out only affects whether the tax exemption applies to that district's property taxes within the VHDZ.

**Example:** Sherwood could adopt a VHDZ for Old Town — and if, say, the fire or school district opts out, the property tax exemption simply doesn't apply to that district's portion of taxes. The LID could still assess properties for infrastructure costs.

### Consideration of Displacement

- VHDZ statute requires that a city consider potential displacement of households in the zone before adopting it — a best practice but **not a prohibition**.
- This is not tied to LIDs; it's part of responsible VHDZ planning.

### Overlap Rules

- As long as VHDZ boundaries do not *overlap another VHDZ*, and each project applying for the exemption is entirely within one zone, there's no statutory restriction stopping a city from also having a LID in the same geographic area.

## *Practical Implications for Sherwood*

### Why These Tools Can Work Together

- A LID provides long-term financing for infrastructure improvements (streets, sidewalks, lighting).
- A VHDZ provides a tax incentive to make mixed-use residential development more financially feasible for private developers.
- Together, they **increase the public value proposition**:
  - Infrastructure upgrades make properties more attractive.
  - Tax incentives improve project economics.

### No Regulatory Barrier

- State statutes allow cities to adopt VHDZ and LIDs without stipulating that one precludes the other.
- City staff should, however, conduct required notifications and consider effects on all property tax districts.

### Administrative Notes

- For VHDZ, Sherwood must notify other taxing districts before adoption and allow them to opt out.
- For LID, the city must follow public hearing processes and assessments under Oregon law and local code.

## ***Summary***

Feature	LID	VHDZ
Purpose	Finance infrastructure	Incentivize mixed-use housing development
Mechanism	Property assessments	Partial property tax exemption
Legal Basis	Municipal code & state improvement laws	ORS 307.841-307.867
Requires notice to taxing districts?	Not generally	Yes — taxing districts can opt out
Conflict with the other tool?	✗ No	✗ No
Can operate concurrently in same area?	✓ Yes	✓ Yes